

**CITY OF SHELDON
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND
QUESTIONED COSTS
JUNE 30, 2007**

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CITY OF SHELDON
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Kurt Tatsumi	Mayor	January 2010
Mark Postma	Council Member	January 2008
Kevin Welch	Council Member	January 2008
Dave Popkes	Council Member	January 2010
Ron Rensink	Council Member	January 2008
Duane Seehusen	Council Member	January 2010
Scott Wynja	City Manager	
Arlene Budden	Clerk/Treasurer	
Jack DeHoogh	Attorney	
Skip Tanner	Airport Commissioner	July 2009
Glen Zylstra	Airport Commissioner	July 2010
Steve Drenkow	Airport Commissioner	July 2009
Rob Dixon	Airport Commissioner	July 2010
Scott Meinecke	Airport Commissioner	July 2007
Hal Tuttle	Park Commissioner	July 2009
Thel Boone	Park Commissioner	July 2009
Nikki Cooper	Park Commissioner	July 2007
Jay Theis	Park Commissioner	July 2010
Shelly Miedoma	Park Commissioner	July 2010
Kathy VanderVliet	Library Trustee	July 2009
Rosalind Geels	Library Trustee	July 2009
Jane Cain	Library Trustee	July 2010
Darlene Krier	Library Trustee	July 2012
Lisa Meendering	Library Trustee to December 13, 2006	
Joel Gustafson	Library Trustee from March 14, 2007	
Lynda Huisman	Library Trustee	July 2011
Judy Honkomp	Library Trustee	July 2007
Raeanne Tatsumi	Museum Trustee	July 2008
Marlene Pape	Museum Trustee	July 2007
Joe Wildeman	Museum Trustee	July 2007
Cindy Runger	Museum Trustee	July 2009
Mark Klemme	Museum Trustee	July 2007
Adrian Dorsman	Museum Trustee	July 2008

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Sheldon
Sheldon, IA 51201

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sheldon, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sheldon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sheldon at June 30, 2007 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2007 on our consideration of the City of Sheldon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 51 through 55 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sheldon's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on the June 30, 2004, 2005, and 2006 financial statements and a qualified opinion on the June 30, 2003 financial statements due to the omission of the general fixed asset account group. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Winter, Stewart & Co LLP

December 7, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sheldon provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 Financial Highlights

- Revenues of the City's governmental activities increased 27.72%, or approximately \$1,122,600 from fiscal 2006 to fiscal 2007. Property tax decreased approximately \$77,400.
- Program expenses increased by 30.22% or approximately \$1,254,800 in fiscal 2007 from fiscal 2006. Public safety, public works, culture and recreations, community and economic development, general government, and capital projects increased by approximately \$259,700, \$61,600, \$59,600, \$693,900, \$20,300, and \$241,700, respectively. Debt service decreased by approximately \$82,000.
- The City's net assets increased 9.64%, or approximately \$1,466,000, from June 30, 2006 to June 30, 2007. Of this amount, the net assets of the governmental funds increased by approximately \$692,000 and the net assets of the business type activities increased by approximately \$774,000.

Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the City as a whole and present an overall view of the City's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The City prepares its budget and maintains its financial records on the cash basis.

Reporting The City's Financial Activities

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities reports information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has three kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Tax Increment Financing, (c) the Debt Service Fund, and (d) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2. Proprietary funds account for the City's Enterprise and Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. The Internal Service Fund is used to account for the City's self-insurance activities.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenditures and changes in fund net assets, and a statement of cash flows.

3. Fiduciary funds are used to report assets held in trust or agency capacity for others. The City's fiduciary fund is used to account for employee cafeteria funds.

The required financial statement for fiduciary funds includes a statement of fiduciary assets and liabilities.

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

Net Assets as of June 30, 2007

	Governmental Activities	Business Type Activities	Total
Current and other assets	\$ 6,448,586	\$ 3,587,608	\$10,036,194
Capital assets	<u>9,263,163</u>	<u>8,156,946</u>	<u>17,420,109</u>
Total assets	<u>15,711,749</u>	<u>11,744,554</u>	<u>27,456,303</u>
Long-term liabilities	3,376,937	2,551,161	5,928,098
Other liabilities	<u>2,962,406</u>	<u>1,884,075</u>	<u>4,846,481</u>
Total liabilities	<u>6,339,343</u>	<u>4,435,236</u>	<u>10,774,579</u>
Net assets:			
Invested in capital assets - net of related debt	7,177,263	5,738,173	12,915,436
Restricted	1,335,913	175,122	1,511,035
Unrestricted	<u>859,230</u>	<u>1,396,023</u>	<u>2,255,253</u>
Total net assets	<u>\$ 9,372,406</u>	<u>\$ 7,309,318</u>	<u>\$16,681,724</u>

Net Assets as of June 30, 2006

	Governmental Activities	Business Type Activities	Total
Current and other assets	\$ 6,284,887	\$ 1,400,100	\$ 7,684,987
Capital assets	8,986,346	5,872,722	14,859,068
Total assets	<u>15,271,233</u>	<u>7,272,822</u>	<u>22,544,055</u>
Long-term liabilities	3,902,934	684,848	4,587,782
Other liabilities	2,687,920	52,674	2,740,594
Total liabilities	<u>6,590,854</u>	<u>737,522</u>	<u>7,328,376</u>
Net assets:			
Invested in capital assets - net of related debt	6,375,064	5,253,482	11,628,546
Restricted	1,155,893	169,591	1,325,484
Unrestricted	<u>1,149,422</u>	<u>1,112,227</u>	<u>2,261,649</u>
Total net assets	<u>\$ 8,680,379</u>	<u>\$ 6,535,300</u>	<u>\$15,215,679</u>

Changes in Net Assets for the Year Ended June 30, 2007

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 669,638	\$1,406,197	\$ 2,075,835
Operating grants, contributions, and restricted interest	557,434	5,430	562,864
Capital grants, contributions, and restricted interest	1,097,019		1,097,019
General revenues:			
Property and other city taxes	1,166,395		1,166,395
Tax increment financing	1,212,202		1,212,202
Local option sales tax	447,781		447,781
Unrestricted investment earnings	61,487	60,200	121,687
Unrestricted miscellaneous	62,344		62,344
Fixed asset transfers	(575,714)	575,714	
Total revenues	<u>4,698,586</u>	<u>2,047,541</u>	<u>6,746,127</u>
Program expenses:			
Public safety	742,847		742,847
Public works	1,101,001		1,101,001
Culture and recreation	645,750		645,750
Community and economic development	938,537		938,537
General government	407,062		407,062
Debt service	171,362		171,362
Water		615,013	615,013
Sewer		658,510	658,510
Total expenses	<u>4,006,559</u>	<u>1,273,523</u>	<u>5,280,082</u>
Change in net assets	692,027	774,018	1,466,045
Net assets - beginning of year	<u>8,680,379</u>	<u>6,535,300</u>	<u>15,215,679</u>
Net assets - end of year	<u>\$9,372,406</u>	<u>\$7,309,318</u>	<u>\$16,681,724</u>

Changes in Net Assets for the Year Ended June 30, 2006

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 626,170	\$1,343,997	\$ 1,970,167
Operating grants, contributions, and restricted interest	514,111	3,447	517,558
Capital grants, contributions, and restricted interest	176,235		176,235
General revenues:			
Property and other city taxes	1,273,841		1,273,841
Tax increment financing	1,151,255		1,151,255
Local option sales tax	367,107		367,107
Unrestricted investment earnings	70,225	33,884	104,109
Unrestricted miscellaneous	43,060		43,060
Fixed asset transfers	(76,141)	76,141	
Total revenues	<u>4,145,863</u>	<u>1,457,469</u>	<u>5,603,332</u>
Program expenses:			
Public safety	695,559		695,559
Public works	1,073,998		1,073,998
Culture and recreation	541,213		541,213
Community and economic development	379,407		379,407
General government	416,722		416,722
Debt service	190,362		190,362
Water		623,613	623,613
Sewer		641,172	641,172
Total expenses	<u>3,297,261</u>	<u>1,264,785</u>	<u>4,562,046</u>
Change in net assets	848,602	192,684	1,041,286
Net assets - beginning of year	<u>7,831,777</u>	<u>6,342,616</u>	<u>14,174,393</u>
Net assets - end of year	<u>\$8,680,379</u>	<u>\$6,535,300</u>	<u>\$15,215,679</u>

Net assets of governmental activities increased from FY06 by approximately \$692,000 or 7.97%. Net assets of business type activities increased from FY06 by approximately \$774,000 or 11.84%. The largest portion of the City's net assets is the invested in capital assets (e.g. land, Lewis and Clark water rights, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Other restricted net assets is land held by the City to be sold or granted to businesses for economic development purposes.

Individual Major Governmental Fund Analysis

Changes in Fund Balances - Governmental Funds For the year ended June 30,	2007 <u>All Funds</u>	2006 <u>All Funds</u>
Revenues	\$5,172,687	\$4,050,118
Expenses	<u>5,407,169</u>	<u>4,152,367</u>
Net	(234,482)	(102,249)
Other financing sources	<u>128,272</u>	<u>128,176</u>
Increase (decrease) in fund balances	(106,210)	25,927
Fund balance - beginning of year	<u>2,112,157</u>	<u>2,086,230</u>
Fund balance - end of year	<u>\$2,005,947</u>	<u>\$2,112,157</u>

Governmental funds reported a combined fund balance of \$2,005,947 at June 30, 2007 which was \$106,210 less than the fund balance at June 30, 2006.

The general fund, tax increment financing, and debt service fund showed modest changes of \$(4,917), \$7,170, and \$2,665, respectively.

The capital projects fund showed a decrease of \$260,309 due to expenditures being paid from prior year reserves.

Individual Major Business Type Fund Analysis

Changes in Net Assets - Proprietary Funds For the year ended June 30,	2007 <u>Enterprise Funds</u>	2006 <u>Enterprise Funds</u>	2007 <u>Internal Service Funds</u>	2006 <u>Internal Service Funds</u>
Revenues	\$1,466,397	\$1,377,881	\$ 400,153	\$ 408,246
Expenses	<u>1,279,061</u>	<u>1,278,179</u>	<u>372,982</u>	<u>365,542</u>
Net	187,336	99,702	27,171	42,704
Net transfers	<u>575,714</u>	<u>76,141</u>		
Increase in net assets	763,050	175,843	27,171	42,704
Net assets - beginning of year	<u>6,452,995</u>	<u>6,277,152</u>	<u>235,853</u>	<u>193,149</u>
Net assets - end of year	<u>\$7,216,045</u>	<u>\$6,452,995</u>	<u>\$ 263,024</u>	<u>\$ 235,853</u>

Enterprise funds reported combined net assets of \$7,216,045 at June 30, 2007 which was an increase of \$763,050 over the net assets at June 30, 2006.

The water fund reported net income of \$241,973 before transfers from governmental funds.

The sewer fund reported a net loss of \$54,637 before transfers, which included depreciation expense of \$160,548.

Budgetary Highlights

The City amended the budget on November 15, 2006. This amendment was needed to cover unplanned expenses primarily Community Development Block Grant and Housing Rehabilitation Grant expenditures, a new fire truck, and several capital projects. Even with this amendment, the City exceeded the budgeted amount in the debt service function for the year ended June 30, 2007. The City had planned to pay off the Runger interim TIF loan prior to June 30, 2006. Since the City did not pay off the loan, the payments made during the year ended June 30, 2007 resulted in the debt service function being over budget.

Capital Assets and Debt Administration

Capital Assets Administration

A summary of the City's capital assets is as follows:

Capital Assets as of June 30, 2007			
	Governmental Activities	Business Type Activities	Total
Land	\$ 406,000	\$ 84,390	\$ 490,390
Lewis and Clark water rights		2,380,580	2,380,580
Construction in progress	328,705		328,705
Building and improvements	4,369,951	4,915,018	9,284,969
Equipment and vehicles	2,297,223	665,009	2,962,232
Infrastructure	<u>8,023,762</u>	<u>4,648,118</u>	<u>12,671,880</u>
Total capital assets	15,425,641	12,693,115	28,118,756
Less accumulated depreciation	<u>6,162,478</u>	<u>4,536,169</u>	<u>10,698,647</u>
Net capital assets	<u>\$ 9,263,163</u>	<u>\$ 8,156,946</u>	<u>\$17,420,109</u>
Depreciation expense	<u>\$ 581,388</u>	<u>\$ 275,523</u>	<u>\$ 856,911</u>

Capital Assets as of June 30, 2006			
	Governmental Activities	Business Type Activities	Total
Land	\$ 406,000	\$ 84,390	\$ 490,390
Lewis and Clark water rights		512,864	512,864
Construction in progress	551,798		551,798
Building and improvements	5,348,147	4,853,002	10,201,149
Equipment and vehicles	1,974,268	610,708	2,584,976
Infrastructure	<u>7,228,871</u>	<u>4,072,404</u>	<u>11,301,275</u>
Total capital assets	15,509,084	10,133,368	25,642,452
Less accumulated depreciation	<u>6,522,738</u>	<u>4,260,646</u>	<u>10,783,384</u>
Net capital assets	<u>\$ 8,986,346</u>	<u>\$ 5,872,722</u>	<u>\$14,859,068</u>
Depreciation expense	<u>\$ 590,970</u>	<u>\$ 274,977</u>	<u>\$ 865,947</u>

Major additions for the year ended June 30, 2007 included the North Water Main Distribution Project, Sunshine Addition improvements, C & D Street, a new fire truck and ambulance, a new museum roof, and preliminary work on the new aquatic center.

In addition, as explained in Note 7 in the notes to financial statements, the City has agreed to prepay its share of the Lewis and Clark Rural Water System's construction costs, which will stop further construction inflation on the City's share. The City has recorded as a capital asset (water rights) the total City's estimated share or \$2,380,580. This asset will be amortized over the estimated life span of the system upon receipt of benefits.

The City closed the indoor pool early in 2007. As a result, the undepreciated cost of the pool was written off resulting in a net decrease of \$197,253 in capital assets. The cost of demolition work will be expensed when the work is completed in the year ended June 30, 2008.

Debt Administration

At June 30, 2007, the City had \$5,808,946 in bonds and other long-term debt, compared to \$4,471,398 last year as shown below.

Outstanding Debt at Year-End		
	June 30,	
	<u>2007</u>	<u>2006</u>
Tax increment financing	\$ 821,855	\$ 974,310
Sewer revenue note	591,000	625,000
Water revenue note	1,900,000	
Sales and service tax bonds	1,000,000	1,110,000
Skateboard park loan		14,826
General obligation bonds	1,170,000	1,405,000
Airport improvement loan	<u>326,091</u>	<u>342,262</u>
Total	<u>\$5,808,946</u>	<u>\$4,471,398</u>

The water revenue capital loan note was issued on May 25, 2007 for the purpose of making payment on the commitment to Lewis and Clark Rural Water System, Inc. The proceeds have been invested until the payment to Lewis and Clark is made.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is well within its constitutional debt limit of \$10,033,921.

Economic Factors and Next Year's Budgets and Rates

Each year, the City of Sheldon's elected officials and department heads consider various factors that contribute to the establishment of the proposed budget. This includes tax rates, fees for services, grants and other various funding sources. Once again this year, many factors helped to determine the 2007-2008 budget.

In preparation for the budget cycle, department heads were requested to establish and update the 5-year capital improvement plan (CIP) for their respective departments. As the budget process moved forward, various items were included that were included in the CIP. As in years past, the general fund was closely monitored due to the continued roll-back in property taxes. Various reserve funds and grants were considered as part of the funding options for these departments due to the increase in department expenditures. There has been a continued increase in the assessed valuation of the entire community, but a majority of that

growth has taken place in various tax increment financing (TIF) districts. This has allowed for the consideration of a few new projects that are eligible under the use of TIF. The City Council continues to analyze these TIF districts and will need to continue to consider the release of some areas to alleviate some funding for the general fund areas. No major programs were added this year.

Comparisons 2006-2007 to 2007-2008 Management Analysis

In preparing for the 2007-2008 budget year, the City Council was once again faced with a decline in the general fund area. With the continuation of the roll-back, general fund operating numbers remained virtually the same. The City Council was once again faced with many challenges to offset and fund the increase in expenditures. A majority of this was done by using reserve funds and grants to cover some of the needed capital items.

The major projects that have been budgeted this year through the general fund include the new airport administration building, tuckpointing of the museum, and camera system equipment in the police department. These items will be funded from reserves, fundraisers, donations, and grants.

This year again the City saw a substantial increase in funding through tax increment financing (TIF). As the community continues to develop and grow, TIF has become a valuable tool to promote and enhance this economic growth. There are many projects that will be completed with the use of TIF funds such as; 26th Avenue residential street project, sewer lining along Country Club road, hotel development incentive package, funding for the pool demolition and construction of the new outdoor aquatic center. With the continued need for development of infrastructure in Sheldon Crossing and the Runger Addition, we see a continued need to use TIF funds to develop these areas with infrastructure to capture the potential growth. The City Council continues to analyze the TIF situation and determine the appropriate need for the community. They will continue to consider districts that could be released from TIF; but with the amount of debt that is currently in these areas, the City shows a great need to capture these funds for various payments and capital projects. With the commitment agreement with the hotel development and the new aquatic center project, a majority of the TIF proceeds are allocated in the next fiscal year.

This year, the City Council again proposed a rate increase of 4% to the water and sewer utilities. With the increased operational expenses and projects in the respective departments, it was necessary to again have this increase. The water department plans to purchase a new pickup truck, mower, and meter reading equipment. They will also continue with the water main extension program and conduct a study of one of the wells to improve output. The wastewater department also plans to purchase a new pickup truck this year and replace the heating and cooling system in the main building. The City also continues to be a member of the Lewis and Clark Regional Water System. The City has approved a water revenue bond of \$1.9 million to cover the capital cost for their portion of the project. This supplemental water system will help meet the future water growth needs of the community. There is currently a surcharge that covers a large portion of the annual payment and the remainder is derived from user rates and fees.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Arlene Budden, City Clerk/Treasurer or Scott Wynja, City Manager, 416 9th St., Sheldon, Iowa.

CITY OF SHELDON
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and pooled investments	\$ 2,181,075	\$ 3,142,969	\$ 5,324,044
Receivables - net, where applicable, of allowances for uncollectibles:			
Property tax:			
Delinquent	8,609		8,609
Succeeding year	1,030,361		1,030,361
Tax increment financing:			
Delinquent	8,581		8,581
Succeeding year	1,398,964		1,398,964
Accounts and unbilled usage	95,473	172,836	268,309
Special assessments	56,454		56,454
Accrued interest	23,830	16,010	39,840
Due from other governments	174,813		174,813
Inventories		54,923	54,923
Prepaid expenses	100,529		100,529
Land held for resale	133,949		133,949
Restricted assets:			
Cash and pooled investments		192,983	192,983
Accrued interest receivable		2,564	2,564
Due from Sheldon Chamber & Development Corporation (SCDC)	1,217,208		1,217,208
Accrued interest on due from SCDC	18,740		18,740
Loan fees - net of accumulated amortization		5,323	5,323
Capital assets - net of accumulated depreciation	<u>9,263,163</u>	<u>8,156,946</u>	<u>17,420,109</u>
TOTAL ASSETS	<u>15,711,749</u>	<u>11,744,554</u>	<u>27,456,303</u>

CITY OF SHELTON
STATEMENT OF NET ASSETS - Continued
JUNE 30, 2007

	Governmental Activities	Business Type Activities	Total
LIABILITIES			
Accounts payable	\$ 342,733	\$ 20,618	\$ 363,351
Contracts payable	72,537		72,537
Due to Lewis and Clark Rural Water System		1,833,096	1,833,096
Medical claims payable	25,890	14,226	40,116
Salaries payable	9,472	5,484	14,956
Accrued interest payable	26,182	10,651	36,833
Deferred revenues:			
Succeeding year property tax	1,030,361		1,030,361
Succeeding year tax increment financing	1,398,964		1,398,964
Other	56,267		56,267
Long-term liabilities:			
Portion of payable due within one year:			
Customer deposits		20,425	20,425
Compensated absences	73,829	39,736	113,565
General obligation bonds	345,000		345,000
Sales tax bonds	110,000		110,000
Revenue notes		126,312	126,312
Other long-term debt	46,210		46,210
Portion of payable due after one year:			
General obligation bonds - net of unamortized discount	1,540,162		1,540,162
Sales tax bonds	890,000		890,000
Revenue notes		2,364,688	2,364,688
Other long-term debt	371,736		371,736
TOTAL LIABILITIES	<u>6,339,343</u>	<u>4,435,236</u>	<u>10,774,579</u>
NET ASSETS			
Invested in capital assets - net of related debt	7,177,263	5,738,173	12,915,436
Restricted for:			
Debt service	2,472		2,472
Land held for resale	133,949		133,949
Special revenue purposes	1,199,492		1,199,492
Revenue note retirement		11,226	11,226
Sewer improvement		90,000	90,000
Sewer replacement		73,896	73,896
Unrestricted	859,230	1,396,023	2,255,253
TOTAL NET ASSETS	<u>\$ 9,372,406</u>	<u>\$ 7,309,318</u>	<u>\$16,681,724</u>

CITY OF SHELDON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

		Program Revenues		
		Charges for	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
	<u>Expenses</u>	<u>Services</u>	<u>Interest</u>	<u>Interest</u>
FUNCTIONS/PROGRAMS:				
GOVERNMENTAL ACTIVITIES:				
Public safety	\$ 742,847	\$ 205,183	\$ 26,711	\$ 188,393
Public works	1,101,001	291,170	431,244	35,316
Culture and recreation	645,750	81,749	43,430	80,159
Community and economic development ...	938,537	35,161	1,766	793,151
General government	407,062	56,375	379	
Interest and fees on long-term debt	171,362		53,904	
TOTAL GOVERNMENTAL ACTIVITIES	<u>4,006,559</u>	<u>669,638</u>	<u>557,434</u>	<u>1,097,019</u>
BUSINESS TYPE ACTIVITIES:				
Water	615,013	811,970	2,904	
Sewer	658,510	594,227	2,526	
TOTAL BUSINESS TYPE ACTIVITIES	<u>1,273,523</u>	<u>1,406,197</u>	<u>5,430</u>	
 TOTAL	 <u>\$5,280,082</u>	 <u>\$2,075,835</u>	 <u>\$562,864</u>	 <u>\$1,097,019</u>

GENERAL REVENUES:	
Property and other city taxes levied for:	
General purposes	
Debt service	
Tax increment financing	
Local option sales tax	
Unrestricted investment earnings	
Unrestricted miscellaneous	
Fixed asset transfers	
TOTAL GENERAL REVENUES	

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

PRIOR PERIOD ADJUSTMENT

NET ASSETS - BEGINNING OF YEAR,
as adjusted

NET ASSETS - END OF YEAR

Exhibit B

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (322,560)		\$ (322,560)
(343,271)		(343,271)
(440,412)		(440,412)
(108,459)		(108,459)
(350,308)		(350,308)
<u>(117,458)</u>		<u>(117,458)</u>
<u>(1,682,468)</u>		<u>(1,682,468)</u>
	\$ 199,861	199,861
	<u>(61,757)</u>	<u>(61,757)</u>
	<u>138,104</u>	<u>138,104</u>
<u>(1,682,468)</u>	<u>138,104</u>	<u>(1,544,364)</u>
1,135,441		1,135,441
30,954		30,954
1,212,202		1,212,202
447,781		447,781
61,487	60,200	121,687
62,344		62,344
<u>(575,714)</u>	<u>575,714</u>	
<u>2,374,495</u>	<u>635,914</u>	<u>3,010,409</u>
<u>692,027</u>	<u>774,018</u>	<u>1,466,045</u>
8,680,379	6,022,436	14,702,815
	<u>512,864</u>	<u>512,864</u>
<u>8,680,379</u>	<u>6,535,300</u>	<u>15,215,679</u>
<u>\$9,372,406</u>	<u>\$7,309,318</u>	<u>\$16,681,724</u>

CITY OF SHELDON
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

ASSETS

	<u>General</u>	Tax Increment <u>Financing</u>	Debt <u>Service</u>
ASSETS:			
Cash and pooled investments	\$ 583,583	\$ 269,619	\$ 9,610
Receivables - net, where applicable, of allowance for uncollectibles:			
Property tax:			
Delinquent	5,501		230
Succeeding year	708,804		
Tax increment financing:			
Delinquent		8,581	
Succeeding year		1,398,964	
Accounts	95,345		
Special assessments	56,454		
Accrued interest	8,283	1,341	74
Due from other governments	47,084		
Land held for resale			
Due from Sheldon Chamber & Development Corporation (SCDC)			
Accrued interest on due from SCDC	_____	_____	_____
 TOTAL ASSETS	 <u>\$1,505,054</u>	 <u>\$1,678,505</u>	 <u>\$ 9,914</u>

LIABILITIES AND FUND EQUITY

LIABILITIES:			
Accounts payable	\$ 90,198		
Contracts payable			
Salaries payable	6,191		
Deferred revenue:			
Succeeding year property tax	708,804		
Succeeding year tax increment financing		\$1,398,964	
Due from SCDC and related accrued interest.....			
Other	56,454		
TOTAL LIABILITIES	<u>861,647</u>	<u>1,398,964</u>	<u>_____</u>
 FUND BALANCES:			
Reserved for debt service			\$ 9,914
Reserved for land held for resale			
Unreserved:			
Designated for future equipment purchases	131,375		
Undesignated:			
Reported in:			
General fund	512,032		
Special revenue funds		\$ 279,541	
Capital projects funds			
TOTAL FUND BALANCES	<u>643,407</u>	<u>279,541</u>	<u>9,914</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$1,505,054</u>	 <u>\$1,678,505</u>	 <u>\$ 9,914</u>

EXHIBIT C

<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 295,573	\$ 828,600	\$1,986,985
	2,878	8,609
	321,557	1,030,361
		8,581
		1,398,964
		95,345
		56,454
2,815	9,894	22,407
	127,729	174,813
133,949		133,949
1,217,208		1,217,208
<u>18,740</u>	<u> </u>	<u>18,740</u>
<u>\$1,668,285</u>	<u>\$1,290,658</u>	<u>\$6,152,416</u>
\$ 221,442	\$ 31,093	\$ 342,733
69,754	2,783	72,537
	3,281	9,472
	321,557	1,030,361
		1,398,964
1,235,948		1,235,948
		56,454
<u>1,527,144</u>	<u>358,714</u>	<u>4,146,469</u>
		9,914
133,949		133,949
		131,375
		512,032
	931,944	1,211,485
7,192		7,192
<u>141,141</u>	<u>931,944</u>	<u>2,005,947</u>
<u>\$1,668,285</u>	<u>\$1,290,658</u>	<u>\$6,152,416</u>

See Notes to Financial Statements

CITY OF SHELDON
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

TOTAL GOVERNMENTAL FUND BALANCES PER EXHIBIT C	\$2,005,947
AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$15,425,641 and the accumulated depreciation is \$6,162,478.	9,263,163
Prepaid expenses are not available to pay current period expenses and, therefore, are not recorded in the funds.	100,529
The receivable and related accrued interest due from Sheldon Chamber & Development Corporation are not available to pay current period expenses and, therefore, are deferred in the funds.	1,235,948
Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds.	187
The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	169,751
Long-term liabilities, including bonds and other long-term debt payable, compensated absences, and accrued interest payable, are not due and payable within the current period and, therefore, are not reported as liabilities in the funds.	<u>(3,403,119)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT A	<u>\$9,372,406</u>

CITY OF SHELDON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	Tax Increment <u>Financing</u>	Debt <u>Service</u>
REVENUES:			
Property tax	\$ 692,875		\$ 30,144
Tax increment financing		\$1,212,202	
Other city taxes	26,245		810
Licenses and permits	42,638		
Use of money and property	88,066	10,040	3,691
Intergovernmental	872,686		
Charges for services	488,464		
Special assessments	833		
Miscellaneous	99,499	28,200	
TOTAL REVENUES	<u>2,311,306</u>	<u>1,250,442</u>	<u>34,645</u>
EXPENDITURES:			
Public safety	793,339		
Public works	309,856		
Culture and recreation	449,684		
Community and economic development	568,439	70,540	
General government	230,658		
Debt service	15,267	34,261	499,403
Capital projects		249,666	
TOTAL EXPENDITURES	<u>2,367,243</u>	<u>354,467</u>	<u>499,403</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(55,937)</u>	<u>895,975</u>	<u>(464,758)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	69,823		467,423
Operating transfers out	(63,303)	(888,805)	
Proceeds from sale of fixed assets	44,500		
Gain on sale of lots			
TOTAL OTHER FINANCING SOURCES (USES)	<u>51,020</u>	<u>(888,805)</u>	<u>467,423</u>
NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	<u>(4,917)</u>	<u>7,170</u>	<u>2,665</u>
FUND BALANCES - BEGINNING OF YEAR	648,324	272,371	7,249
PRIOR PERIOD ADJUSTMENT			
FUND BALANCES - BEGINNING OF YEAR, as adjusted	<u>648,324</u>	<u>272,371</u>	<u>7,249</u>
FUND BALANCES - END OF YEAR	<u>\$ 643,407</u>	<u>\$ 279,541</u>	<u>\$ 9,914</u>

EXHIBIT E

Capital Projects	Total Nonmajor Governmental Funds	Total
	\$ 363,038	\$1,086,057
		1,212,202
	501,064	528,119
		42,638
\$ 11,102	35,771	148,670
6,185	556,544	1,435,415
		488,464
		833
<u>86,562</u>	<u>16,028</u>	<u>230,289</u>
<u>103,849</u>	<u>1,472,445</u>	<u>5,172,687</u>
	176,137	969,476
	571,722	881,578
	42,562	492,246
	201,273	840,252
	109,758	340,416
	150,530	699,461
<u>910,074</u>	<u>24,000</u>	<u>1,183,740</u>
<u>910,074</u>	<u>1,275,982</u>	<u>5,407,169</u>
<u>(806,225)</u>	<u>196,463</u>	<u>(234,482)</u>
462,144	75,114	1,074,504
	(122,396)	(1,074,504)
		44,500
<u>83,772</u>	<u> </u>	<u>83,772</u>
<u>545,916</u>	<u>(47,282)</u>	<u>128,272</u>
<u>(260,309)</u>	<u>149,181</u>	<u>(106,210)</u>
424,950	759,263	2,112,157
<u>(23,500)</u>	<u>23,500</u>	<u> </u>
<u>401,450</u>	<u>782,763</u>	<u>2,112,157</u>
<u>\$ 141,141</u>	<u>\$ 931,944</u>	<u>\$2,005,947</u>

CITY OF SHELDON
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO
 THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2007

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS PER EXHIBIT E	\$ (106,210)
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AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN
 THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital expenditures exceeded depreciation expense for the year, as follows:

Expenditures for capital assets	\$1,631,172	
Transferred to water and sewer	(575,714)	
Deletions - net of \$941,648 accumulated depreciation	(197,253)	
Depreciation expense	(581,388)	276,817

Prepaid expenses are not available to pay current period expenses and, therefore, are not recorded in the funds. The change in prepaid expenses results in differences between the statements, as follows:

Prepaid expenses - end of year	100,529	
Prepaid expenses - beginning of year	(106,887)	(6,358)

The receivable and related accrued interest due from Sheldon Chamber & Development Corporation (SCDC) is not available to pay current period expenses and, therefore, are deferred in the funds. The change in these deferred amounts results in differences between the statements as follows:

Due from SCDC deferred - end of year	1,217,208	
Accrued interest SCDC deferred - end of year	18,740	
Due from SCDC deferred - beginning of year	(1,217,208)	
Accrued interest SCDC deferred - beginning of year	(35,282)	(16,542)

Certain other receivables are not available to pay current period expenses and, therefore, are deferred in the funds. The change in these deferred amounts results in differences between the statements, as follows:

Special assessments deferred - end of year	187	
Special assessments deferred - beginning of year	(784)	(597)

CITY OF SHELDON
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO
 THE STATEMENT OF ACTIVITIES - Continued
 FOR THE YEAR ENDED JUNE 30, 2007

Proceeds from issuing long-term liabilities provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded new issues, as follows:

Amortization of bond discount	\$ (3,070)	
Repayments	<u>528,452</u>	\$ 525,382

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. The change in these accrued expenses results in differences between the statements, as follows:

Compensated absences - end of year	(73,829)	
Accrued interest payable - end of year	(26,182)	
Compensated absences - beginning of year	74,444	
Accrued interest payable - beginning of year	<u>28,899</u>	3,332

The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the change in net assets of the internal service fund is reported with governmental activities.	<u>16,203</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT B	<u>\$ 692,027</u>
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CITY OF SHELDON
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2007

	ASSETS			Internal Service
	Enterprise Funds			
	Water	Sewer	Total	Self-Insurance
ASSETS				
Cash and pooled investments	\$2,876,053	\$ 160,269	\$ 3,036,322	\$300,737
Receivables - net of allowance for uncollectibles:				
Accounts and unbilled usage	100,808	71,958	172,766	198
Accrued interest	12,697	2,531	15,228	2,205
Inventories	42,049	12,874	54,923	
Restricted assets:				
Revenue note and interest sinking account:				
Cash and pooled investments		11,138	11,138	
Accrued interest		88	88	
Revenue note improvement account:				
Cash and pooled investments		90,000	90,000	
Revenue note debt service account:				
Cash and pooled investments		71,420	71,420	
Accrued interest		2,476	2,476	
Customer deposits - cash	20,425		20,425	
Loan fees - net of accumulated amortization		5,323	5,323	
Capital assets - net of accumulated depreciation	5,015,577	3,141,369	8,156,946	
TOTAL ASSETS	8,067,609	3,569,446	11,637,055	303,140
LIABILITIES:				
Accounts payable	13,430	7,188	20,618	
Due to Lewis and Clark Rural Water System	1,833,096		1,833,096	
Medical claims payable				40,116
Salaries payable	2,648	2,836	5,484	
Accrued interest payable	8,721	1,930	10,651	
Long-term liabilities:				
Portion of payable due within one year:				
Customer deposits	20,425		20,425	
Compensated absences	15,962	23,774	39,736	
Revenue notes payable	90,312	36,000	126,312	
Portion of payable due after one year:				
Revenue notes payable	1,809,688	555,000	2,364,688	
TOTAL LIABILITIES	3,794,282	626,728	4,421,010	40,116
NET ASSETS:				
Invested in capital assets - net of related debt	3,182,481	2,555,692	5,738,173	
Restricted for:				
Revenue note retirement		11,226	11,226	
Sewer improvement		90,000	90,000	
Sewer replacement		73,896	73,896	
Unrestricted	1,090,846	211,904	1,302,750	263,024
TOTAL NET ASSETS	\$4,273,327	\$2,942,718	\$ 7,216,045	\$263,024

CITY OF SHELDON
 RECONCILIATION OF STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO
 THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

TOTAL NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT G	\$7,216,045
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AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE
 STATEMENT OF NET ASSETS IS DIFFERENT BECAUSE:

The internal service fund is used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds. A portion of the assets and liabilities of the internal service fund are included in business type activities in the Statement of Net Assets.	<u>93,273</u>
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TOTAL NET ASSETS - BUSINESS TYPE ACTIVITIES PER EXHIBIT A	<u>\$7,309,318</u>
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CITY OF SHELDON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Enterprise Funds</u>			<u>Internal Service</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Self-Insurance</u>
OPERATING REVENUES:				
Charges for services	\$ 800,185	\$ 594,197	\$1,394,382	
Reimbursements from operating funds				\$367,882
Reimbursements from employees and insurance				19,643
Miscellaneous	<u>11,785</u>	<u>30</u>	<u>11,815</u>	
TOTAL OPERATING REVENUES	<u>811,970</u>	<u>594,227</u>	<u>1,406,197</u>	<u>387,525</u>
OPERATING EXPENSES:				
Business type activities:				
Cost of sales and services	492,871	477,120	969,991	
Depreciation	114,975	160,548	275,523	
Amortization		437	437	
Insurance charges and claims				<u>372,982</u>
TOTAL OPERATING EXPENSES	<u>607,846</u>	<u>638,105</u>	<u>1,245,951</u>	<u>372,982</u>
OPERATING INCOME (LOSS)	<u>204,124</u>	<u>(43,878)</u>	<u>160,246</u>	<u>14,543</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest income	46,570	13,630	60,200	12,628
Interest expense:				
Revenue note	<u>(8,721)</u>	<u>(24,389)</u>	<u>(33,110)</u>	
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>37,849</u>	<u>(10,759)</u>	<u>27,090</u>	<u>12,628</u>
NET INCOME (LOSS) BEFORE TRANSFERS FROM GOVERNMENTAL FUNDS	<u>241,973</u>	<u>(54,637)</u>	<u>187,336</u>	<u>27,171</u>
TRANSFERS:				
Operating transfers in		1,377	1,377	
Operating transfers out	<u>(1,377)</u>		<u>(1,377)</u>	
Capital assets transferred in	<u>490,935</u>	<u>84,779</u>	<u>575,714</u>	
TOTAL TRANSFERS - NET	<u>489,558</u>	<u>86,156</u>	<u>575,714</u>	
CHANGE IN NET ASSETS	<u>731,531</u>	<u>31,519</u>	<u>763,050</u>	<u>27,171</u>
NET ASSETS - BEGINNING OF YEAR	3,028,932	2,911,199	5,940,131	235,853
PRIOR PERIOD ADJUSTMENT	<u>512,864</u>		<u>512,864</u>	
NET ASSETS - BEGINNING OF YEAR, as adjusted	<u>3,541,796</u>	<u>2,911,199</u>	<u>6,452,995</u>	<u>235,853</u>
NET ASSETS - END OF YEAR	<u>\$4,273,327</u>	<u>\$2,942,718</u>	<u>\$7,216,045</u>	<u>\$263,024</u>

CITY OF SHELDON
 RECONCILIATION OF STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
 NET ASSETS - PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2007

TOTAL CHANGE IN NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT I \$ 763,050

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE
 STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

The internal service fund is used by the City to charge the cost of partial self
 funding the City's health insurance benefit plan to the individual funds. A portion
 of the change in net assets of the internal service fund is reported with business
 type activities. 10,968

CHANGE IN NET ASSETS OF BUSINESS TYPE ACTIVITIES PER EXHIBIT B \$ 774,018

CITY OF SHELDON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Enterprise Funds</u>			<u>Internal Service</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Self-Insurance</u>
CASH FLOWS FROM				
OPERATING ACTIVITIES:				
Cash received from customers	\$ 817,992	\$590,724	\$1,408,716	
Cash received from employees and insurance				\$ 22,349
Other operating receipts	11,785	30	11,815	
Cash payments from operating funds				394,931
Cash payments to employees for services	(210,443)	(211,584)	(422,027)	
Cash payments for goods and services	(332,533)	(274,685)	(607,218)	(371,245)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>286,801</u>	<u>104,485</u>	<u>391,286</u>	<u>46,035</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Interfund loans	36,377	(36,377)		
Operating transfers	(1,377)	1,377		
NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES	<u>35,000</u>	<u>(35,000)</u>		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of fixed assets	(96,248)	(62,939)	(159,187)	
Proceeds from revenue note	1,900,000		1,900,000	
Principal paid on revenue note		(34,000)	(34,000)	
Interest paid on revenue note		(24,500)	(24,500)	
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>1,803,752</u>	<u>(121,439)</u>	<u>1,682,313</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	<u>40,838</u>	<u>13,504</u>	<u>54,342</u>	<u>14,158</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>40,838</u>	<u>13,504</u>	<u>54,342</u>	<u>14,158</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,166,391	(38,450)	2,127,941	60,193
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>730,087</u>	<u>371,277</u>	<u>1,101,364</u>	<u>240,544</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$2,896,478</u>	<u>\$332,827</u>	<u>\$3,229,305</u>	<u>\$300,737</u>

CITY OF SHELDON
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Enterprise Funds</u>			<u>Internal Service</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Self-Insurance</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
OPERATING INCOME (LOSS)	<u>\$ 204,124</u>	<u>\$ (43,878)</u>	<u>\$ 160,246</u>	<u>\$ 14,543</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation	114,975	160,548	275,523	
Amortization		437	437	
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable and unbilled usage	(2,892)	(3,473)	(6,365)	2,706
(Increase) in inventories	(23,804)	(2,737)	(26,541)	
Decrease in due from other funds				27,049
Increase (decrease) in accounts payable	2,381	(2,942)	(561)	
Increase in medical claims payable				1,737
(Decrease) in due to other funds	(6,150)	(5,477)	(11,627)	
Increase (decrease) in salaries payable	(305)	166	(139)	
(Decrease) in customer deposits	(1,850)		(1,850)	
Increase in compensated absences	322	1,841	2,163	
TOTAL ADJUSTMENTS	<u>82,677</u>	<u>148,363</u>	<u>231,040</u>	<u>31,492</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 286,801</u>	<u>\$104,485</u>	<u>\$ 391,286</u>	<u>\$ 46,035</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON THE STATEMENT OF NET ASSETS				
Cash and pooled investments	\$2,876,053	\$160,269	\$3,036,322	\$300,737
Restricted assets - cash and pooled investments:				
Revenue note and interest sinking account		11,138	11,138	
Revenue note improvement account		90,000	90,000	
Revenue note debt service account		71,420	71,420	
Customer deposits	<u>20,425</u>		<u>20,425</u>	
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$2,896,478</u>	<u>\$332,827</u>	<u>\$3,229,305</u>	<u>\$300,737</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:				
Three water projects and two sewer projects were paid by a governmental fund type and transferred to the enterprise funds.				
Cost transferred in	<u>\$ 490,935</u>	<u>\$ 84,779</u>	<u>\$ 575,714</u>	

See Notes to Financial Statements

CITY OF SHELDON
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2007

	Agency Cafeteria <u>Plan</u>
ASSETS:	
Cash and pooled investments	\$ 6,810
LIABILITIES:	
Cafeteria plan benefits payable	<u>6,810</u>
NET ASSETS	<u>\$</u>

CITY OF SHELDON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sheldon is a political subdivision of the State of Iowa located in O'Brien and Sioux Counties. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Sheldon provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. It also provides water and sewer utilities.

The financial statements of the City of Sheldon have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. It was determined that the City has no component units.

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Northwest Iowa Area Solid Waste Agency, O'Brien County Emergency Management Association, O'Brien County E911 Board, Lewis and Clark Rural Water, and other various organizations.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Additionally, the City has reported an investment in land held for resale as restricted.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs not paid from other funds.

Special Revenue:

The Tax Increment Financing Revenues Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general long-term debt. The City has elected to report this fund as a major fund.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

Additionally, the City reports the following funds:

Proprietary Fund - An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Fund - Agency Fund is used to account for assets held by the City as an agent for individuals.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales

and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of interest-bearing cash accounts, certificates of deposit, and perfected repurchase agreements which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents.

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2007 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2006.

Accounts and Unbilled Usage Receivable - Accounts receivable are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Special Assessments Receivable - Special assessments receivable represents the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than ten nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other tax.

Due From Other Governments - Due from other governments represents various shared revenues, grants, and reimbursements due from other governments. Shared revenues are recognized during the period received by the collecting authority, the State of Iowa.

Inventories - Proprietary Fund inventories of materials and supplies are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. The cost of inventories in the governmental funds are recorded as an expenditure at the time individual inventory items are purchased.

Restricted Assets - Proceeds from debt and funds set aside for payment of the enterprise fund revenue note are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include property held for resale in the capital projects fund which represents land which the City has purchased. The City intends to sell the property as soon as possible. In addition, other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of two years.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	40 - 50 years
Improvements other than buildings	10 - 40 years
Vehicles	5 - 10 years
Equipment	5 - 20 years
Infrastructure	10 - 40 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of delinquent property tax receivable, special assessments receivable, amounts due from the Sheldon Chamber and Development Corporation, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied, and special assessments that are agricultural deferred.

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Road Use Funds.

Long-term Liabilities - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. CASH AND INVESTMENTS

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2007 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash and investments consisted of the following at June 30, 2007:

Cash on hand	\$ 160
Demand deposits	219,557
Certificates of deposit/savings accounts	4,435,120
Repurchase agreements	<u>869,000</u>
	<u>\$5,523,837</u>

The City's investments in repurchase agreements are collateralized by obligations of the United States government or its agencies. The City has signed a custodial agreement with the custodian. The repurchase agreements are reported at cost, which approximates market value. These investments are insured or registered with the securities held by the City or its agent in the City's name.

3. ALLOWANCES FOR COLLECTION LOSSES

Allowances have been made for estimated collection losses on the following receivable amounts:

	<u>Gross Receivables</u>	<u>Allowance for Collection Losses</u>	<u>Net Receivables</u>
Accounts and unbilled usage:			
General Fund	\$119,157	\$ 23,812	\$ 95,345
Enterprise Fund:			
Water	105,009	4,201	100,808
Sewer	74,956	2,998	71,958
Internal Service Fund:			
Self insurance	<u>198</u>	<u> </u>	<u>198</u>
	<u>\$299,320</u>	<u>\$ 31,011</u>	<u>\$268,309</u>

4. DUE FROM SHELDON CHAMBER AND DEVELOPMENT CORPORATION

During the year ended June 30, 2005, the City issued \$1,535,000 of taxable capital loan notes. A portion of the bond issue was granted to the Sheldon Chamber and Development Corporation (SCDC). The SCDC used the grant to purchase land for development and resale. The SCDC has agreed to pay \$18,042 per acre to the City as the land is sold. The price is anticipated to repay the grant, professional fees incurred by the City, and the SCDC's share of interest expense on the bond issue. A summary of the amount due as of June 30, 2007 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Balance due at June 30, 2006	\$1,217,208	\$ 35,282	\$1,252,490
Interest accrued to June 30, 2007		50,213	50,213
Amount received by the City during the year ended June 30, 2007	<u> </u>	<u>(66,755)</u>	<u>(66,755)</u>
Balance due at June 30, 2007	<u>\$1,217,208</u>	<u>\$ 18,740</u>	<u>\$1,235,948</u>

The due from SCDC is deferred in the governmental fund financial statements since it is not an available financial resource.

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Additions	Deletions	Transfers In (Out)	Balance End of Year
GOVERNMENTAL ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Construction in progress	\$ 551,798	\$ (223,093)			\$ 328,705
Land	406,000				406,000
Total capital assets not being depreciated	957,798	(223,093)			734,705
Capital assets being depreciated:					
Buildings and improvements	5,348,147	107,704	\$(1,085,900)		4,369,951
Equipment and vehicles	1,974,268	375,956	(53,001)		2,297,223
Infrastructure	7,228,871	1,370,605		\$(575,714)	8,023,762
Total capital assets being depreciated	14,551,286	1,854,265	(1,138,901)	(575,714)	14,690,936
TOTAL COST OF CAPITAL ASSETS	15,509,084	1,631,172	(1,138,901)	(575,714)	15,425,641
ACCUMULATED DEPRECIATION:					
Buildings and improvements	2,130,334	149,198	(893,075)		1,386,457
Equipment and vehicles	1,253,833	147,674	(48,573)		1,352,934
Infrastructure	3,138,571	284,516			3,423,087
TOTAL ACCUMULATED DEPRECIATION	6,522,738	581,388	(941,648)		6,162,478
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	\$ 8,986,346	\$1,049,784	\$ (197,253)	\$(575,714)	\$ 9,263,163
BUSINESS TYPE ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Land	\$ 84,390				\$ 84,390
Lewis and Clark water rights	512,864	\$1,867,716			2,380,580
Total capital assets not being depreciated	597,254	1,867,716			2,464,970
Water and sewer plants	4,853,002	62,016			4,915,018
Equipment and vehicles	610,708	54,301			665,009
Infrastructure	4,072,404			\$ 575,714	4,648,118
Total capital assets being depreciated	9,536,114	116,317		575,714	10,228,145
TOTAL COST OF CAPITAL ASSETS	10,133,368	1,984,033		575,714	12,693,115
ACCUMULATED DEPRECIATION:					
Water and sewer plants	2,807,222	119,183			2,926,405
Equipment and vehicles	372,900	42,634			415,534
Infrastructure	1,080,524	113,706			1,194,230
TOTAL ACCUMULATED DEPRECIATION	4,260,646	275,523			4,536,169
BUSINESS TYPE CAPITAL ASSETS - NET	\$ 5,872,722	\$1,708,510	\$	\$ 575,714	\$ 8,156,946
COST OF LOAN FEES					
Less accumulated amortization	\$ 8,750	\$ 437			\$ 8,750
	2,990				3,427
LOAN FEES - NET	\$ 5,760	\$ (437)	\$	\$	\$ 5,323

Depreciation was charged to functions of the government as follows:

Governmental Activities:

Public safety	\$ 65,346
Public works	317,490
Culture and recreation	131,816
General government	<u>66,736</u>
Total Governmental Activities	<u>\$ 581,388</u>

Business Type Activities:

Water	\$ 114,975
Sewer	<u>160,548</u>
Total Business Type Activities	<u>\$ 275,523</u>

6. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Final Due Date</u>
GOVERNMENTAL ACTIVITIES:				
GENERAL OBLIGATION BONDS/NOTES:				
Essential corporate purpose	9-01-99	5.05 - 5.40%	\$1,500,000	6-01-2012
Refunding capital loan notes	5-01-03		990,000	
Taxable capital loan notes	11-15-04	4.00 - 5.05%	1,535,000	6-01-2012
TOTAL				
Less unamortized bond discount ..				
NET GENERAL OBLIGATION BONDS/NOTES				
SALES AND SERVICE TAX BONDS:				
Refunding bonds	5-01-03	3.00 - 4.30%	1,415,000	6-01-2015
OTHER LONG-TERM DEBT:				
Rungers interim TIF loan	4-20-00	6.35%	250,000	5-25-2010
USDA airport loan	6-06-01	4.75%	400,000	6-05-2021
Skateboard park loan	8-26-03		43,505	
TOTAL				
COMPENSATED ABSENCES				
TOTAL GOVERNMENTAL ACTIVITIES				
BUSINESS TYPE ACTIVITIES:				
REVENUE NOTES:				
Sewer revenue capital loan notes	9-15-99	3.92%	814,000	6-01-2020
Water revenue capital loan note	3-25-07	4.59%	1,900,000	6-01-2022
TOTAL REVENUE NOTES				
CUSTOMER DEPOSITS				
COMPENSATED ABSENCES				
TOTAL BUSINESS TYPE ACTIVITIES				

<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
\$ 855,000		\$125,000	\$ 730,000	\$130,000
30,000		30,000		
<u>1,375,000</u>	<u> </u>	<u>205,000</u>	<u>1,170,000</u>	<u>215,000</u>
2,260,000		360,000	1,900,000	345,000
<u>(17,908)</u>	<u> </u>	<u>(3,070)</u>	<u>(14,838)</u>	<u> </u>
<u>2,242,092</u>	<u> </u>	<u>356,930</u>	<u>1,885,162</u>	<u>345,000</u>
<u>1,110,000</u>	<u> </u>	<u>110,000</u>	<u>1,000,000</u>	<u>110,000</u>
119,310		27,455	91,855	29,271
342,262		16,171	326,091	16,939
<u>14,826</u>	<u> </u>	<u>14,826</u>	<u> </u>	<u> </u>
<u>476,398</u>	<u> </u>	<u>58,452</u>	<u>417,946</u>	<u>46,210</u>
<u>74,444</u>	<u> </u>	<u>615</u>	<u>73,829</u>	<u>73,829</u>
<u>\$3,902,934</u>	<u> </u>	<u>\$525,997</u>	<u>\$3,376,937</u>	<u>\$575,039</u>
\$ 625,000		\$ 34,000	\$ 591,000	\$ 36,000
<u> </u>	<u>\$1,900,000</u>	<u> </u>	<u>1,900,000</u>	<u>90,312</u>
625,000	1,900,000	34,000	2,491,000	126,312
22,275		1,850	20,425	20,425
<u>37,573</u>	<u>2,163</u>	<u> </u>	<u>39,736</u>	<u>39,736</u>
<u>\$ 684,848</u>	<u>\$1,902,163</u>	<u>\$ 35,850</u>	<u>\$2,551,161</u>	<u>\$186,473</u>

General Obligation Bonds/Notes

The City's total general obligation bonds/notes at June 30, 2007 were \$1,900,000. The bonds issued in September 1999 are anticipated to be repaid with tax increment financing revenues, and a portion of the bonds issued in November 2004 are anticipated to be repaid from repayments from the Sheldon Chamber and Development Corporation.

Sales and Service Tax Bonds

On October 3, 1995, the residents of the City approved a local option sales tax at the rate of 1%. The revenues must be applied 37.5% for property tax relief and 62.5% for community betterment. The City has issued sales and service tax bonds to defray the cost of the Community Services Center project in accordance with Chapter 422B. The bonds are payable from 62.5% of the local option sales tax collected. If the 62.5% is insufficient to pay the bonds and interest, the shortfall may be paid from debt service. Therefore, the bonds are a general obligation of the City.

Revenue Notes

The City has a sewer revenue capital loan note issued under a loan agreement between the City of Sheldon, the Iowa Finance Authority, the Iowa Department of Natural Resources, and Norwest Bank Iowa, N.A.

The resolution providing for the issuance of the sewer revenue capital loan note include the following provisions:

- (A) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate sewer revenue sinking account for the purpose of making the principal and interest payments when due.
- (C) Additional monthly transfers shall be made to a separate sewer reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking account.
- (D) Additional monthly transfers of \$2,500 to a sewer improvement account shall be made until a balance of \$90,000 has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking and reserve accounts and to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget and for capital improvements to the systems.
- (E) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the note falling due in the same year.

During the year ended June 30, 2007, the City was in compliance with all the sewer revenue note provisions.

The City also has a water revenue capital loan note which was purchased by a local bank in participation with three other local banks.

The resolution providing for the issuance of the water revenue capital loan note include the following provisions:

- (A) The note will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate sewer revenue sinking account for the purpose of making the principal and interest payments when due.
- (C) Additional monthly transfers shall be made to a separate sewer reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal and interest payments when insufficient money is available in the sinking account.
- (D) User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the note falling due in the same year.

The purchaser of the note has waived provisions (B) and (C). The City is in compliance with the other water revenue note provisions.

Other Long-term Debt

As of June 30, 2007, this debt consisted of the following:

- (1) Rungers Interim TIF Loan - This loan was used to purchase land for resale. The loan has an unpaid balance of \$91,855 as of June 30, 2007. The loan calls for monthly payments of \$2,855 including interest at 6.35%. The City will make these payments from TIF revenues. The loan is secured by real property.
- (2) Airport Loan - This loan was made through the United States Department of Agriculture for improvements at the City's airport. The loan has an unpaid balance of \$326,091 as of June 30, 2007, which will be paid from the general fund. The notes call for annual payments of \$32,428 including interest at 4.75%.

A summary of the City's long-term debt maturities is as follows:

Governmental Activities						
Year Ending June 30,	General Obligation Bonds/Notes		Sales and Service Tax Bonds		Runners Interim TIF Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 345,000	\$ 91,262	\$ 110,000	\$ 37,560	\$ 29,271	\$ 4,991
2009	360,000	76,098	115,000	34,260	31,185	3,077
2010	380,000	59,607	120,000	30,522	31,399	1,032
2011	400,000	41,493	125,000	26,322		
2012	415,000	21,517	125,000	21,698		
2013			130,000	16,823		
2014			135,000	11,623		
2015			140,000	6,020		
2016						
2017						
2018						
2019						
2020						
2021						
Total	<u>\$1,900,000</u>	<u>\$289,977</u>	<u>\$1,000,000</u>	<u>\$184,828</u>	<u>\$ 91,855</u>	<u>\$ 9,100</u>

Governmental Activities - Continued

Year Ending June 30,	USDA Airport Loan		Total	
	Principal	Interest	Principal	Interest
2008	\$ 16,939	\$ 15,489	\$ 501,210	\$149,302
2009	17,743	14,685	523,928	128,120
2010	18,586	13,842	549,985	105,003
2011	19,469	12,959	544,469	80,774
2012	20,394	12,034	560,394	55,249
2013	21,362	11,066	151,362	27,889
2014	22,377	10,051	157,377	21,674
2015	23,440	8,988	163,440	15,008
2016	24,553	7,875	24,553	7,875
2017	25,720	6,708	25,720	6,708
2018	26,941	5,487	26,941	5,487
2019	28,221	4,207	28,221	4,207
2020	29,562	2,866	29,562	2,866
2021	30,784	1,462	30,784	1,462
Total	<u>\$ 326,091</u>	<u>\$127,719</u>	<u>\$3,317,946</u>	<u>\$611,624</u>

Revenue Notes

Year Ending June 30,	Sewer Revenue Capital Loan Notes		Water Revenue Capital Loan Note		Total Revenue Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 36,000	\$ 23,167	\$ 90,312	\$ 87,640	\$ 126,312	\$110,807
2009	37,000	21,756	94,775	81,991	131,775	103,747
2010	39,000	20,306	99,040	77,593	138,040	97,899
2011	40,000	18,777	103,638	72,995	143,638	91,772
2012	42,000	17,209	108,342	68,183	150,342	85,392
2013	43,000	15,562	113,584	63,151	156,584	78,713
2014	45,000	13,877	118,753	57,880	163,753	71,757
2015	47,000	12,113	124,266	52,366	171,266	64,479
2016	49,000	10,270	129,964	46,597	178,964	56,867
2017	50,000	8,350	136,137	40,562	186,137	48,912
2018	52,000	6,390	142,390	34,242	194,390	40,632
2019	54,000	4,351	149,000	27,631	203,000	31,982
2020	57,000	2,234	155,888	20,714	212,888	22,948
2021			163,180	13,476	163,180	13,476
2022			170,731	5,900	170,731	5,900
Total	<u>\$ 591,000</u>	<u>\$174,362</u>	<u>\$1,900,000</u>	<u>\$750,921</u>	<u>\$2,491,000</u>	<u>\$925,283</u>

7. LEWIS AND CLARK RURAL WATER SYSTEM, INC.

The City, in conjunction with 15 other municipalities and five rural water systems within South Dakota, Iowa, and Minnesota that provide drinking water to consumers, is a member of the Lewis and Clark Rural Water System, Inc. (The "System"). The System will collect, treat, and distribute drinking water to the entities involved upon completion. The City thinks that the System is a critical supplemental water source for the City's continued growth. The System's board of directors is comprised of 20 members, one from each participating entity. Under the articles of incorporation, no member has a residual equity interest.

The City has been making annual payments on its share of construction costs for several years. During the year ended June 30, 2007, the City made a commitment to prepay its remaining share of system costs. This will stop construction inflation on the City's remaining share of costs.

The city has determined that its share of the System's costs should be recorded as a capital asset (water rights). A summary of the City's share as of June 30, 2007 is as follows:

Paid through June 30, 2005	\$ 374,349
Paid during the year ended June 30, 2006	<u>138,515</u>
Total payments through June 30, 2006	512,864
Paid during the year ended June 30, 2007	34,620
Remaining amount due to the System	<u>1,833,096</u>
City's Total Share of Costs Through June 30, 2007	<u>\$2,380,580</u>

The payments through June 30, 2006 have been recorded as a prior period adjustment. The City has recorded the payable to the System, which will be paid from the proceeds of the \$1,900,000 water revenue capital loan note. The capital asset of \$2,380,580 will be amortized over the estimated life span of the System upon receipt of benefits from the System.

8. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 23,163
	FICA/IPERS	11,660
	Local option sales tax	35,000
		<u>69,823</u>
Debt Service	General	32,428
	Special Revenue:	
	Tax increment financing	434,995
		<u>467,423</u>
Capital Projects	General	30,875
	Special Revenue:	
	Tax increment financing	426,269
	Local option sales tax	5,000
		<u>462,144</u>
Special Revenue:	Special Revenue:	
FICA/IPERS	Local option sales tax	<u>31,573</u>
Special Revenue:	Special Revenue:	
LMI	Tax increment financing	<u>27,541</u>
Special Revenue:	Special Revenue:	
Local options sales tax	Trails maintenance	<u>8,000</u>
Special Revenue:	Special Revenue:	
Trails Maintenance	Local option sales tax	<u>8,000</u>
Proprietary:	Proprietary:	
Enterprise:	Enterprise:	
Sewer	Water	<u>1,377</u>
TOTAL OPERATING TRANSFERS		<u>\$1,075,881</u>

9. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered salaries. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$74,900, \$72,846, and \$69,899, respectively, equal to the required contributions for each year.

10. OTHER EMPLOYEE BENEFITS

All full-time City employees accumulate sick leave hours for subsequent use. The accumulation of sick leave hours did not vest as of June 30, 2007 and therefore is not recognized as a liability until used by the employee or upon retirement or death. If paid upon retirement or death, payment is made for up to 50 percent of accrued sick leave, not to exceed 60 days. The City's approximate contingent liability for the unvested sick leave as of June 30, 2007 is as follows:

Governmental activities	\$205,932
Business type activities	<u>95,923</u>
 TOTAL	 <u>\$301,855</u>

11. HEALTH CARE FACILITY REVENUE BONDS AND HOUSING REVENUE NOTES

The City has issued a total of \$11,880,000 of Health Care Facility Revenue Bonds and Housing Revenue Notes under the provisions of Chapter 419 of the Code of Iowa, of which \$8,410,000 is outstanding at June 30, 2007. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

12. RELATED PARTY TRANSACTIONS

The City has business transactions between the City and City officials, totaling \$105,579 during the year ended June 30, 2007. See item 07-IV-D in the Schedule of Findings and Questioned Costs.

13. CONTRACT AND OTHER COMMITMENTS

The City has entered into construction contracts for 26th Street improvements, housing rehabilitation work, and tuckpointing work at the museum. A summary of the contracts is as follows:

Contract total	\$201,381
Completed as of June 30, 2007	<u>83,669</u>
Uncompleted	<u>\$117,712</u>

The City has also entered into several tax increment financing rebate agreements with local businesses. The City has agreed to rebate the taxes paid by the business over a period of years. The City will expense the rebates as the taxes are collected and returned to the businesses.

14. SUBSEQUENT EVENTS

Subsequent to June 30, 2007, the City entered into seven construction contracts totaling \$3,079,084 for housing rehabilitation, pool demolition, airport terminal, sewer rehabilitation, and aquatic center projects. The City also issued \$3,045,000 urban renewal annual appropriation capital loan notes, committed \$800,000 toward a hotel project, and deeded several lots to the Sheldon Chamber and Development Corporation.

15. SIGNIFICANT GROUP CONCENTRATION OF CREDIT RISK

In the course of selling water and sewer services, the City grants credit to customers, all of whom are local residents.

16. RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2007 were \$100,529.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2007, no liability has been recorded in the City's financial statements. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City has established a self-insurance health insurance fund (an internal service fund) to account for group insurance risks. The City's plan has established a specific stop-loss amount of \$20,000 and an aggregate stop-loss of 125% of expected claims for the year. The City purchases commercial insurance for claims in excess of coverage provided.

The claims liability of \$40,116 reported in the fund at June 30, 2007 is based on claims reported but unpaid and estimated claims incurred but not reported as of June 30, 2007. Changes in the balances of claims liability during the year are as follows:

Unpaid claims - June 30, 2006	\$ 38,379
Incurred claims	372,982
Less claims paid	<u>(371,245)</u>
Unpaid claims - June 30, 2007	<u>\$ 40,116</u>

The City has workmen's compensation coverage through the Iowa Municipalities Workers' Compensation Association. In addition, the City purchases employee blanket bond coverage from other insurers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

17. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

18. COLLECTIVE BARGAINING AGREEMENT

All employees, except for the office personnel and management, are covered by collective bargaining agreements which expire June 30, 2008.

19. OTHER PRIOR PERIOD ADJUSTMENT

The housing rehab special revenue fund with a beginning fund balance of \$23,500 was reported with the capital projects fund in the June 30, 2006 financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SHELDON
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
GOVERNMENTAL AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>
RECEIPTS:			
Property taxes	\$1,088,289		\$1,088,289
Other city taxes	519,010		519,010
Tax increment financing revenues	1,215,979		1,215,979
Licenses and permits	41,560		41,560
Use of money and property	146,853	\$ 68,500	215,353
Intergovernmental	1,380,683		1,380,683
Charges for services	480,405	1,803,647	2,284,052
Special assessments	833		833
Miscellaneous	238,533	34,164	272,697
TOTAL RECEIPTS	<u>5,112,145</u>	<u>1,906,311</u>	<u>7,018,456</u>
DISBURSEMENTS:			
Program:			
Public safety	1,011,219		1,011,219
Public works	862,975		862,975
Culture and recreation	500,724		500,724
Community and economic development	837,469		837,469
General government	337,527		337,527
Debt service	699,461		699,461
Capital projects	1,007,943		1,007,943
Business type		1,246,932	1,246,932
Non-program	3,314	371,245	374,559
TOTAL DISBURSEMENTS	<u>5,260,632</u>	<u>1,618,177</u>	<u>6,878,809</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(148,487)</u>	<u>288,134</u>	<u>139,647</u>
OTHER FINANCING SOURCES (USES):			
Operating transfer in	1,074,504	1,377	1,075,881
Operating transfer out	(1,074,504)	(1,377)	(1,075,881)
Proceeds - sale of assets	164,681		164,681
Revenue note proceeds		1,900,000	1,900,000
TOTAL OTHER FINANCING SOURCES	<u>164,681</u>	<u>1,900,000</u>	<u>2,064,681</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS	16,194	2,188,134	2,204,328
BALANCE - BEGINNING OF YEAR	<u>1,977,601</u>	<u>1,341,908</u>	<u>3,319,509</u>
BALANCE - END OF YEAR	<u>\$1,993,795</u>	<u>\$3,530,042</u>	<u>\$5,523,837</u>

Less Funds Not Required to be Budgeted	Net Actual	Original Budget	Final Budget	Final to Actual Variance
	\$1,088,289	\$1,075,253	\$1,075,253	\$ 13,036
	519,010	421,119	421,119	97,891
	1,215,979	1,202,113	1,202,113	13,866
	41,560	39,275	39,275	2,285
\$ 14,158	201,195	107,015	107,015	94,180
	1,380,683	1,142,963	1,911,963	(531,280)
394,931	1,889,121	1,799,770	1,807,770	81,351
	833	711	711	122
<u>25,691</u>	<u>247,006</u>	<u>123,730</u>	<u>123,730</u>	<u>123,276</u>
<u>434,780</u>	<u>6,583,676</u>	<u>5,911,949</u>	<u>6,688,949</u>	<u>(105,273)</u>
	1,011,219	877,801	1,052,801	41,582
	862,975	1,196,460	1,196,460	333,485
	500,724	758,467	818,467	317,743
	837,469	300,503	917,503	80,034
	337,527	387,049	387,049	49,522
	699,461	664,000	664,000	(35,461)
	1,007,943	743,568	1,167,786	159,843
	1,246,932	1,422,324	1,422,324	175,392
<u>374,559</u>				
<u>374,559</u>	<u>6,504,250</u>	<u>6,350,172</u>	<u>7,626,390</u>	<u>1,122,140</u>
<u>60,221</u>	<u>79,426</u>	<u>(438,223)</u>	<u>(937,441)</u>	<u>1,016,867</u>
	1,075,881	1,110,885	1,110,885	(35,004)
	(1,075,881)	(1,110,885)	(1,110,885)	35,004
	164,681	128,000	128,000	36,681
	<u>1,900,000</u>			<u>1,900,000</u>
	<u>2,064,681</u>	<u>128,000</u>	<u>128,000</u>	<u>1,936,681</u>
60,221	2,144,107	(310,223)	(809,441)	2,953,548
<u>247,326</u>	<u>3,072,183</u>	<u>2,737,286</u>	<u>3,319,348</u>	<u>(247,165)</u>
<u>\$307,547</u>	<u>\$5,216,290</u>	<u>\$2,427,063</u>	<u>\$2,509,907</u>	<u>\$2,706,383</u>

CITY OF SHELDON
BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
REVENUES	\$5,112,145	\$ 60,542	\$5,172,687
EXPENDITURES/EXPENSES	<u>5,260,632</u>	<u>146,537</u>	<u>5,407,169</u>
NET BEFORE OTHER FINANCING SOURCES (USES)	(148,487)	(85,995)	(234,482)
OTHER FINANCING SOURCES (USES) - NET	<u>164,681</u>	<u>(36,409)</u>	<u>128,272</u>
NET	<u>16,194</u>	<u>(122,404)</u>	<u>(106,210)</u>
BEGINNING FUND BALANCES/NET ASSETS	1,977,601	134,556	2,112,157
PRIOR PERIOD ADJUSTMENT	_____	_____	_____
BEGINNING FUND BALANCES/NET ASSETS, as adjusted	<u>1,977,601</u>	<u>134,556</u>	<u>2,112,157</u>
ENDING FUND BALANCES/NET ASSETS	<u>\$1,993,795</u>	<u>\$ 12,152</u>	<u>\$2,005,947</u>

Proprietary Funds

<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
\$1,906,311	\$ (39,761)	\$1,866,550
<u>1,618,177</u>	<u>33,866</u>	<u>1,652,043</u>
288,134	(73,627)	214,507
<u>1,900,000</u>	<u>(1,324,286)</u>	<u>575,714</u>
<u>2,188,134</u>	<u>(1,397,913)</u>	<u>790,221</u>
1,341,908	4,834,076	6,175,984
<u> </u>	<u>512,864</u>	<u>512,864</u>
<u>1,341,908</u>	<u>5,346,940</u>	<u>6,688,848</u>
<u>\$3,530,042</u>	<u>\$3,949,027</u>	<u>\$7,479,069</u>

CITY OF SHELDON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
FOR THE YEAR ENDED JUNE 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,276,218. This amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements in the debt service function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SHELDON
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>Special Revenue Funds</u>		
	<u>FICA/IPERS</u>	<u>Road Use</u>	<u>LMI</u>
ASSETS:			
Cash and pooled investments	\$131,245	\$ 36,261	\$ 67,625
Receivables:			
Property tax:			
Delinquent	2,702		
Succeeding year	298,764		
Accrued interest	1,033		872
Due from other governments		<u>33,646</u>	
 TOTAL ASSETS	 <u>\$433,744</u>	 <u>\$ 69,907</u>	 <u>\$ 68,497</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable		\$ 12,962	
Contracts payable			
Salaries payable	\$ 1,015	2,266	
Deferred revenue:			
Succeeding year property tax	<u>298,764</u>		
TOTAL LIABILITIES	<u>299,779</u>	<u>15,228</u>	
 FUND BALANCES:			
Unreserved:			
Undesignated:			
Reported in special revenue funds	<u>133,965</u>	<u>54,679</u>	<u>\$ 68,497</u>
TOTAL FUND BALANCES	<u>133,965</u>	<u>54,679</u>	<u>68,497</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$433,744</u>	 <u>\$ 69,907</u>	 <u>\$ 68,497</u>

<u>Special Revenue Funds</u>					
<u>Emergency</u>	<u>Local Option Sales Tax</u>	<u>Hotel/Motel Tax</u>	<u>Housing Rehab</u>	<u>Trails Maintenance</u>	<u>Total</u>
	\$453,848		\$ 749	\$138,872	\$ 828,600
\$ 176					2,878
22,793					321,557
	7,482			507	9,894
	<u>85,301</u>		<u>8,782</u>		<u>127,729</u>
<u>\$ 22,969</u>	<u>\$546,631</u>	<u>\$</u>	<u>\$ 9,531</u>	<u>\$139,379</u>	<u>\$1,290,658</u>
	\$ 4,000		\$ 2,783	\$ 14,131	\$ 31,093
					2,783
					3,281
<u>\$ 22,793</u>					<u>321,557</u>
<u>22,793</u>	<u>4,000</u>		<u>2,783</u>	<u>14,131</u>	<u>358,714</u>
176	542,631		6,748	125,248	931,944
176	542,631		6,748	125,248	931,944
<u>\$ 22,969</u>	<u>\$546,631</u>	<u>\$</u>	<u>\$ 9,531</u>	<u>\$139,379</u>	<u>\$1,290,658</u>

CITY OF SHELDON
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
ALL NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Special Revenue Funds</u>		
	<u>FICA/IPERS</u>	<u>Road Use</u>	<u>LMI</u>
REVENUES:			
Property tax	\$340,787		
Other city taxes	13,399		
Use of money and property	6,318		\$ 1,667
Intergovernmental		\$411,163	
Miscellaneous			
TOTAL REVENUES	<u>360,504</u>	<u>411,163</u>	<u>1,667</u>
EXPENDITURES:			
Public safety	176,137		
Public works	120,347	451,375	
Culture and recreation	22,066		
Community and economic development			
General government	17,111		
Debt service			
Capital projects			
TOTAL EXPENDITURES	<u>335,661</u>	<u>451,375</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>24,843</u>	<u>(40,212)</u>	<u>1,667</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	31,573		27,541
Operating transfers out	(11,660)		
TOTAL OTHER FINANCING SOURCES (USES)	<u>19,913</u>		<u>27,541</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>44,756</u>	<u>(40,212)</u>	<u>29,208</u>
FUND BALANCES - BEGINNING OF YEAR	89,209	94,891	39,289
PRIOR PERIOD ADJUSTMENT			
FUND BALANCES - BEGINNING OF YEAR	<u>89,209</u>	<u>94,891</u>	<u>39,289</u>
FUND BALANCES - END OF YEAR	<u>\$133,965</u>	<u>\$ 54,679</u>	<u>\$ 68,497</u>

Special Revenue Funds					
<u>Emergency</u>	<u>Local Option Sales Tax</u>	<u>Hotel/Motel Tax</u>	<u>Housing Rehab</u>	<u>Trails Maintenance</u>	<u>Total</u>
\$ 22,251 875	\$447,781 23,057	\$ 39,009			\$ 363,038 501,064 35,771 556,544 16,028
			\$145,381 131	\$ 4,729 15,897	
<u>23,126</u>	<u>470,838</u>	<u>39,009</u>	<u>145,512</u>	<u>20,626</u>	<u>1,472,445</u>
					176,137 571,722 42,562 201,273 109,758 150,530 24,000
	92,647 150,530 24,000	39,009	162,264	20,496	
	<u>267,177</u>	<u>39,009</u>	<u>162,264</u>	<u>20,496</u>	<u>1,275,982</u>
<u>23,126</u>	<u>203,661</u>		<u>(16,752)</u>	<u>130</u>	<u>196,463</u>
	8,000			8,000	75,114
<u>(23,163)</u>	<u>(79,573)</u>			<u>(8,000)</u>	<u>(122,396)</u>
<u>(23,163)</u>	<u>(71,573)</u>				<u>(47,282)</u>
<u>(37)</u>	<u>132,088</u>		<u>(16,752)</u>	<u>130</u>	<u>149,181</u>
213	410,543			125,118	759,263
			23,500		23,500
<u>213</u>	<u>410,543</u>		<u>23,500</u>	<u>125,118</u>	<u>782,763</u>
<u>\$ 176</u>	<u>\$542,631</u>	<u>\$</u>	<u>\$ 6,748</u>	<u>\$125,248</u>	<u>\$ 931,944</u>

CITY OF SHELDON
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
REVENUES:				
Property tax	\$1,086,057	\$1,163,463	\$1,384,120	\$1,491,423
Tax increment financing	1,212,202	1,151,255	1,015,459	796,738
Other City taxes	528,119	477,485	474,961	429,393
Licenses and permits	42,638	10,443	10,550	9,745
Use of money and property	148,670	135,491	109,513	85,833
Intergovernmental	1,435,415	488,348	607,991	880,275
Charges for services	488,464	492,286	472,642	489,557
Special assessments	833	653	3,920	13,317
Miscellaneous	<u>230,289</u>	<u>130,694</u>	<u>73,315</u>	<u>149,550</u>
 TOTAL REVENUES	 <u>\$5,172,687</u>	 <u>\$4,050,118</u>	 <u>\$4,152,471</u>	 <u>\$4,345,831</u>
 EXPENDITURES:				
Public safety	\$ 969,476	\$ 709,730	\$ 673,145	\$ 747,850
Public works	881,578	819,991	790,576	762,801
Health and social services				500
Culture and recreation	492,246	432,679	389,688	462,945
Community and economic development	840,252	146,388	161,755	92,725
General government	340,416	320,094	510,249	408,718
Debt service	699,461	781,458	1,166,454	926,169
Capital projects	<u>1,183,740</u>	<u>942,027</u>	<u>1,631,676</u>	<u>1,200,276</u>
 TOTAL EXPENDITURES	 <u>\$5,407,169</u>	 <u>\$4,152,367</u>	 <u>\$5,323,543</u>	 <u>\$4,601,984</u>

CITY OF SHELDON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

<u>GRANTOR/PROGRAM</u>	<u>CFDA Number</u>	<u>Pass-through Number</u>	<u>Program Expenditures</u>
Direct:			
Department of Homeland Security: Assistance to Firefighters Grant	97.044	EMW-2006-FG-03939	\$152,000
Department of Transportation: Federal Aviation Administration: Airport Improvement Program	20.106	3-19-0081-06-2006	<u>29,131</u>
Total Direct			<u>181,131</u>
Indirect:			
U.S. Department of Housing and Urban Development: Iowa Department of Economic Development: Community Development Block Grant	14.228	06-HSG-007	145,381
Community Development Block Grant	14.228	05-CF-031	546,618
Department of Transportation: Federal Highway Administration: Iowa Department of Transportation: Highway Planning and Construction	20.205	71-01-04	15,000
Department of Homeland Security: Iowa Homeland Security and Emergency Management Division: Disaster Grants - Public Assistance Grants (Presidentially Declared Disasters)	97.036	EM-3275-IA	<u>15,212</u>
Total Indirect			<u>722,211</u>
TOTAL			<u>\$903,342</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Sheldon and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and
Members of the City Council
City of Sheldon
Sheldon, IA 51201

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheldon, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 7, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all matters in the internal control that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

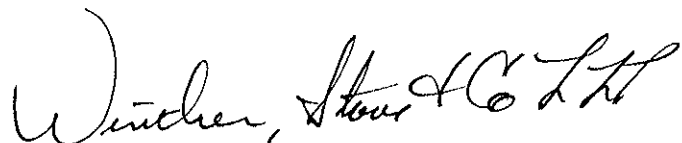
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sheldon, and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



December 7, 2007

WINTHER, STAVE & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Mayor and
Members of the City Council
City of Sheldon
Sheldon, IA 51201

Compliance

We have audited the compliance of the City of Sheldon, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Sheldon complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirement of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sheldon and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Wenter, Steve & Co LLP".

December 7, 2007

CITY OF SHELDON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditors' Results

- a. Unqualified opinions were issued on the financial statements.
- b. No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. No material weaknesses in internal control over the major program were noted.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f. The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. The major program was CFDA Number 14.228 - Community Development Block Grant.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Sheldon did not qualify as a low-risk auditee.

CITY OF SHELDON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
FOR THE YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Financial Statements

Reportable Conditions:

No material weaknesses in internal control over financial reporting were reported.

Instances of Non-Compliance:

No findings were noted.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No findings were noted.

Reportable Conditions:

No material weaknesses in internal control over the major program were reported.

CITY OF SHELDON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
FOR THE YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting

07-IV-A Certified Budget - Disbursements during the year ended June 30, 2007 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The City had planned to pay off the Runger interim TIF loan prior to June 30, 2006. Since the City did not pay off the loan, the payments made during the year ended June 30, 2007 resulted in the debt service function being over budget.

Conclusion - Response accepted.

07-IV-B Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

07-IV-C Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

07-IV-D Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Rensink, Council Member, Owner of Perspective Insurance	Insurance	\$105,330
Kurt Tatsumi, Mayor, Owner of K-T Industries and Signature Printing	Printing and supplies	125
Dave Popkes, Council Member, Owner of Dave's Appliance	Service work	84
Mark Postma, Council Member, Owner Bubbles/Bee Kleen	Laundry	40

The transactions with Mr. Tatsumi, Mr. Popkes, and Mr. Postma do not appear to be a conflict of interest since the total paid to each individual was less than \$1,500.

The transactions with Mr. Rensink do not appear to be a conflict of interest since they relate primarily to payment on the City's Iowa Community Assurance Pool (ICAP) insurance policy. The contract with ICAP was signed prior to Mr. Rensink being a council member and is therefore an exception under Chapter 362.5(7) of the Code of Iowa.

CITY OF SHELDON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS- Continued
FOR THE YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting - Continued

07-IV-E Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

07-IV-F Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

07-IV-G Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

07-IV-H Revenue Notes - No noncompliance with revenue note provisions were noted.

07-IV-I Economic Development - We noted that the City paid the Sheldon Chamber and Development Corporation \$55,000 from tax increment financing revenues, \$39,009 from hotel/motel tax, and \$20,000 from local option sales tax.

In addition, we noted that the City paid the O'Brien County Economic Development Corporation \$5,503 from tax increment financing revenues.

It appears the City properly evaluated the public purpose and requires documentation of how the funds were used.